5 Deputy Dog

For much of his career, Weill has been driven by one idea—one that very few in the business world believe works: cross-selling financial services products. From CBWL to Hayden Stone to Shearson to American Express to Travelers and Citigroup, Weill has followed the cross-seller's siren song: if only the stock brokers could sell insurance; if only the insurance agents could sign up customers for brokerage accounts. If only . . .

The fuel behind cross-selling is reciprocity. Various divisions within a big company sell each other's products, generating more sales without incurring additional costs. "Sandy claims that if you have a wider product range for the salesforces to sell, and really focus on sales management, they will have more to sell and will sell more," says Roy Smith of NYU's Stern School. This is a very cost-effective way for a company to boost sales. In addition, studies have shown that with each additional product you sell, your ability to hold on to a customer grows exponentially.

There is only one problem: Cross-selling is very hard to do. In fact, many academics and analysts say it has never really worked—

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at least in a way that really benefits a company's bottom line. Richard Bove, a securities analyst at the investment boutique Hoefer & Arnett, says that almost *everyone* has considered the idea and then rejected it after some initial clumsy attempts.

"The history is dismal," says Thomas Kempner, the former Loeb Rhoades executive. "Nobody has succeeded. And I have very real questions in my mind as to whether they ever will because I think that the skills to sell life insurance are quite different than the skills it takes to sell securities."

Some of Weill's own attempts at implementing cross-selling strategies have been clumsy as well. In December 2001, Weill announced he was spinning off Travelers Property Casualty to the public. One of the reasons he gave for unloading the business was that efforts to cross-sell had actually backfired when it came to financial results. He attributed that to adverse selection—that is, Citigroup customers who bought the insurance filed more claims than the average Travelers customer. "We were able to get customers, but they weren't the right customers," Weill said in an interview with the authors. "Most of them seemed to be accident prone."

Yet Weill insists cross-selling is working in Citigroup's other businesses. He cites success in selling Citibank mortgages to high-net worth clients of the private bank and Salomon Smith Barney. He says Citibank account holders throughout the world are buying Smith Barney mutual funds. And by the end of 2001, customers of three divisions of Citigroup—Salomon Smith Barney, Primerica Financial Services, and Citibank—had bought over one billion dollars worth of Travelers annuities.

"The one that you read about most, which has worked out really well, is the connectivity between our Citibank commercial banking business and the corporate investment bank," Weill said in an interview. This is the corporate side of cross-selling: Investment bankers and commercial bankers offer companies a kind of one-stop shopping for all their corporate finance needs. With Citigroup's help, a company can efficiently obtain loans and issue stocks and bonds. This gives Citigroup a major leg up in attracting underwriting business over firms like Merrill Lynch, that don't have a banking arm. Indeed, in Wall Street's 2001 rankings, Citigroup came in first for debt offerings and fourth in initial public offerings, ahead of Merrill, according to Thomson Financial.

"Cross-selling doesn't work in a lot of other cases but in Citi's case it actually works," says Jeff Lane, the long-time Weill lieutenant who now heads Neuberger Berman. "I'm not there and I'm telling you it works."

But Weill still has some convincing to do before the outside world will acknowledge that he has been able to make cross-selling work. Several articles in 2000 and 2001 chided Weill for not being quicker to show the benefits of cross-selling, since he cited that as a major reason for the merger of Citicorp and Travelers. But analysts and investors have never really held Weill accountable for his cross-selling goals, because Weill has created so much value in other ways that his devotion to the idea is simply chalked up as an idiosyncrasy. Their thinking goes something like this: "If cross-selling—crazy as the idea is—inspires Sandy to make another well-timed acquisition, then we'll let him believe in such fairy tales."

Weill's devotion to the idea of cross-selling represents his best opportunity to be remembered for something other than simply executing deals and then making the numbers work. It's a chance to do something that no one else has been able to do. And one thing is certain: No one is ready to declare cross-selling at Citigroup dead. Weill has proven his ability to learn from mistakes. Just because the world hasn't learned how to cross-sell yet, Kempner says, "that doesn't mean Sandy or someone like Sandy won't be able to come up with a formula for making it work."

Hopes for the potential of cross-selling provided a major impetus for Weill's 1981 decision to sell Shearson Loeb Rhoades to American Express—to create what was, using the buzzword of the day, a "financial supermarket." The experiment ultimately proved a personal and business failure for Weill at many levels (although a financial windfall), and for reasons other than American Express' inability to cross-sell.

Sandy Lewis and His Big Idea

The idea of a merger between American Express and Shearson Loeb Rhoades was dreamed up by Salim "Sandy" Lewis, who believed the combination would not only create the ultimate financial services powerhouse, but also establish his fledgling one-man investment bank, S.B. Lewis & Co. Lewis pitched the idea to his old friend, American Express CEO James Robinson III, at a breakfast meeting in late 1979. Robinson didn't take the bait. But he mulled over the idea through the early days of 1980.

Around the same time, American Express and Shearson began discussions on creating a cash management account similar to the one Donald Regan had devised, which had become a gold mine for Merrill Lynch. Merrill's Cash Management Account (CMA) functioned like a traditional bank account, but with higher interest rates than banks were allowed to offer. The account-holder could also invest the money in securities. Because brokerage, checking, and debit card services were integrated, the account offered the appeal of one-stop shopping. It became a huge hit with customers.

Both Shearson and American Express hoped to replicate that success with their own version. The firms discussed a plan by which customers could use an AmEx card to draw money from a Shearson margin account or a money market fund. As Merrill

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had been before them, AmEx was bound to get criticized for trying to act like a bank. Luckily for AmEx, though, with Donald Regan now heading the Treasury Department, the Reagan Administration was expected to be tolerant of other brokerage firms attempting similar innovations.

Robinson Weighs the Deal

Encouraged by the two companies' discussions regarding the potential cash management system, Robinson began to consider an American Express acquisition of Shearson. (In fact, he even authorized a four million-dollar investment in S.B. Lewis & Co.)

Given its profits, Shearson looked like a very good company to own. In 1980, Shearson earned $56 million on revenues of $5.5 billion. The bull market was roaring, and there was no reason to expect anything but strong double-digit growth going forward. Most important, Shearson had a salesforce of about 3,500 brokers who had the kind of face-to-face relationship with customers that American Express lacked. The AmEx brand was represented by its credit card, which had over 12 million customers. Robinson must have had visions of well-off cardholders snapping up stocks and bonds and money management services from those aggressive brokers at Shearson.

For Robinson himself, such a major deal would give him a much-needed victory as a deal maker. Since assuming the CEO position in 1977, he had been burned by a spate of ill-fated acquisition attempts. Discussions had fizzled with Walt Disney Productions, Philadelphia Life Insurance, and the Book-of-the-Month Club. Robinson was also humiliated when his well-publicized 1979 attempt to take over McGraw-Hill was beaten back by Harold McGraw.

With American Express aggressively pursuing a strategy of becoming a financial conglomerate, Robinson needed to score a

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key acquisition to retain the confidence of the board and shareholders. For Robinson, a merger with Shearson was both the big deal he'd been looking for and an opportunity to absolve himself of his botched attempt to acquire the publishing giant.

Courting Sandy Weill

Before Lewis invited him to breakfast at the elegant Stock Exchange Luncheon Club on August 29, 1980, Weill had very little acquaintance with him. It was a clever move on Lewis' part to suggest that particular spot. The self-reverential Stock Exchange Club draped itself in Wall Street nostalgia and played up the Street's prominence in the world of finance. As head of Shearson, one of the new pillars of Wall Street, Weill was comfortable in this setting. This was his world, one that he had helped create. Weill accepted the invitation.

Well aware of Weill's deal making prowess and penchant for emerging on top, it took plenty of courage for Lewis to suggest a deal in which the Shearson CEO would come out second or even third. Weill recalled that when Lewis first brought it up, his reaction was, "Geez, I don't see how that's possible. I don't think that Jim is ready to retire, and if he's not, I don't see how we can do anything."[1]

After his own career of humbling other brokerage house executives, Weill could have been forgiven for wanting to avoid selling his firm. But Weill, by then highly confident in his own ability to stay on top when merging with a bigger firm, truly was interested.

Weill Weighs the Deal

The truth is that Weill would have been crazy not to jump at the deal. American Express had a reputation for quality that surpassed any other firm. As the financial world became more global and new kinds of complex derivative securities began to proliferate, Weill knew it was going to take a lot of capital and first-rate technology to stay on top.

Plus, it would undoubtedly be a great deal for Shearson's shareholders. As Wall Street's most profitable firm, and the second biggest behind Merrill Lynch, Shearson would command a steep premium (later on, some would say the deal was a little too good for the Shearson executives who were stockpiling options right until the time of the merger). Personally, it would mark a clear triumph for Weill. A deal with American Express, whose brand name was associated with class and quality, would signal to the world that the Brooklyn-born son of immigrants had made it to the very top of Wall Street's major leagues.

Many assumed Weill had another motivation: to become number one at American Express. Today, it seems axiomatic that Weill would want to head a sprawling, financial superpower like AmEx. In fact, the big question then wasn't whether he wanted the top job, but whether he would be able to grab it. In later interviews, Weill has made it clear that he thought he could manage the company better than Robinson, commenting that he thought he could build a stronger firm by combining the entrepreneurial nature of Shearson with the sophisticated brand savvy of AmEx.

Leaving aside Weill's personal ambitions, the combination also made strategic sense. There were cross-selling opportunities. As his interest in doing a CMA-like product showed, Weill clearly had his eye on the 12 million-strong American Express cardholders. At that time it was one of the largest international customer groups in the world (far surpassing Merrill Lynch's 2.5 million customers at the time). All of these AmEx customers represented potential Shearson clients.

Weill also had his eye on American Express's largest unit, Fireman's Fund insurance, the biggest and most consistent income producer at the company, with a 1980 profit of $210 million. His failed attempts at purchasing insurer Orion in 1977 and 1980 did not deter Weill's interest in the recurring income that the insurance business provided. With policies renewed yearly, you could make money 24 hours a day and on weekends, and that's how Weill has always liked to do business.

American Express also offered strength in data processing and technology, which Weill could appreciate. Then, there was Shearson's growing need for capital, which AmEx had plenty of. American Express' mammoth capital base would give Shearson the heft it needed to pursue ever-larger deals.

Still, Weill had doubts about merging with AmEx. He questioned what his initial role would be with the parent company. He fully expected to be named to the board of directors, but from where would he get his authority? For Weill, it wasn't enough just to have Shearson people answering to him; he had that already. He desperately wanted the title of president, a position at AmEx that was vacant at the time. Weill was also somewhat unsure about his potential working relationship with Robinson. At this point in his career, could he work for someone else?

Climate of Deregulation Pushes the Deal Along

The climate for the AmEx-Shearson deal was created by a financial services regulatory environment that stood at a crossroads. The lurch toward deregulation in general started with the airline industry in 1977, and the financial world was next on the list.

The late 1970s were years of steady inflation that left many Americans dissatisfied with traditional savings and checking accounts and their measly rates of return. American consumers wanted insurance against future inflation and demanded innovative investment products. The leaders of the big financial services companies—Robinson at American Express, Walter

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Wriston at Citibank, and Sam Armacost at Bank of America, among others—scrambled to design new offerings and mix and match disparate financial businesses to meet both customer demands and regulatory guidelines.

Chase Bank, for example, established a securities arm that pushed the tenets of the Bank Holding Act to the limit. Merrill Lynch's Donald Regan, before heading off to join President Reagan's cabinet as Treasury Secretary in early 1981, pushed through the development of the lucrative Cash Management Account.

Wriston also pushed the regulatory envelope. He helped persuade the South Dakota legislature to relax regulations that prevented out-of-state banks from establishing beachheads in the state. Soon after, Citicorp moved its credit card processing operations there, which is why—to this day—millions of Citigroup cardholders call office parks in South Dakota to order new cards and dispute their charges.

Fears of lost market share, conflicts of interests, and various political entanglements created an air of confusion and distrust in the financial services sector in early 1981. Banks believed that brokerages faced much less regulatory restraint; brokerages suspected that big banks, if unleashed from Glass-Steagall, would dominate the securities industry. The Reagan Administration clearly was going to enact some type of financial deregulation, and no segment wanted to be the loser.

Citicorp's Wriston gave some perspective on the financial climate when he appeared before the Senate Finance Committee that year to discuss financial services reform. Wriston was asked about Merrill's CMA account and its effect on the banking industry. To peals of laughter, Wriston said, "To just give you an example, Merrill Lynch's money market fund now exceeds the domestic deposits of Citibank by $2 billion. We've been at it since 1812, and they've been at it almost 24 months." Ironically enough for the banking industry, legislation intended to partially free the industry from regulatory restraint—the Garn-St. Germain Act, enacted in December of 1982—sparked the disastrous speculation by thrifts that led to the mid-1980s savings and loan crisis.

Prudential-Bache Merger Primes the Pump

On March 20, 1981, while Weill was in Hong Kong visiting Shearson's Far East operations, accompanied by former President Ford, news broke about the imminent takeover by Prudential of Bache. Bache had lent the billionaire Hunt brothers, Nelson Bunker Hunt and William Herbert Hunt, millions of dollars in their ill-conceived attempt to corner the silver market. When the brothers weren't liquid enough to cover their trading losses, Bache was nearly de-listed from New York Stock Exchange for lack of capital. The Prudential-Bache deal was simple: Bache needed an infusion of capital, and Prudential, then the largest insurer in the United States, had it.

Fittingly, Weill had barred the Hunt brothers from trading at Shearson years before when they chafed at his insistence on collateral for their big market bets. It was just another instance of Weill showing how he was more fiscally responsible than many of his contemporaries. While he had little sympathy for Bache's recklessness, Weill thought seriously about the implications of Bache joining forces with Prudential. Their merger marked the first salvo in a battle sparked by the combined forces of consumer demand and deregulation: to become a financial services supermarket.

After the Prudential-Bache deal, the tenor of the negotiations between Shearson and American Express changed. In this environment, it was clear that the biggest, most diverse financial firms with the strongest capital bases would be the survivors. To stay on top, both American Express and Shearson knew they had to move and move fast.

"That's when everyone started thinking about the idea that maybe we ought to do more with Shearson, or someone, other than just have a CMA-type account," says Howard Clark Jr., an AmEx executive at the time and the son of Robinson's predecessor, Howard Clark Sr. Clark says that AmEx chose Shearson because it was the best run of the top retail brokerages. "It had strength in retail accounts, a good back office, and an excellent management team—and it was really a team. It wasn't just Sandy, but a team of people that were very, very good."

Merger Discussions Heat Up

The merger discussions between Weill and Robinson were marked by their contrasting personalities and backgrounds. Weill was a striver who had fired thousands and alienated some of his former partners and, doubtless, many others on his way to the top. Robinson had glided into power, it seemed, stepping on few, if any, toes. Weill was as emotional as Robinson was cool. Shearson was as loud and noisy as AmEx was buttoned-down and corporate. They knew there would be a culture clash, but they hoped the new firm would gain the best of both cultures.

Not only were Robinson's and Weill's personalities and backgrounds different, so were their management styles. At the time of his merger negotiations with Robinson, Weill still ran Shearson as he had run CBWL-Hayden Stone, smoking cigars, getting in subordinates' faces, making snap decisions, and continuing to combine personal and professional lives. For example, he and Joan would go on vacations with key executives and their wives after weeks of all-nighters working on a deal.

Robinson, known as "Jimmy Three Sticks," ran American Express like the *Fortune 500* company it was. Son of a banker from a prominent Atlanta family, he spoke with polish. Thoughtful and considerate, Robinson embodied the image of a courtly Southern

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gentleman. In his frequent speeches and public appearances around the world, he came across as a strong, hard-charging CEO, yet inside the firm, his leadership style could be described as conservative. He eschewed risk, preferring a bureaucratic, committee approach to decision making. A formal process was in place to vet new ideas. Things moved slowly and inefficiently to avoid mistakes.

Importantly for Weill's later showdowns with John Reed, Robinson shared some similarities with the deep-thinking Citicorp banker. Both took the reins of power in their early 40s. Both were firm believers in the transforming power of technology. Both were happy to delegate authority, preferring to conceive of grand plans and let others perform the at-times mundane efforts to carry them out. Weill, of course, shared none of these characteristics with the two biggest adversaries of his career. Luckily for him, he had to face only one at a time.

Negotiating the Deal

As the talks heated up, Weill invited Robinson and his wife, Bettye, out to his home in Greenwich, a large Tudor bookended by an apple orchard and a three-car garage. Weill's home, at least, was of a manner that Robinson could identify with. Greenwich was—and still is—a town any CEO can relate to, with its country clubs and four-acre zoning. Weill later reflected on those discussions, "We did the financial part of it in two minutes. Who did what to whom personally took a lot more time."[2]

The foursome ate lunch before Joan led Bettye on a tour of their orchard and garden. Sandy took Jim into his study to talk. As soon as they sat down, Weill peppered him with questions. According to authors Jon Friedman and John Meehan in *House of Cards,* Weill wanted to know how he would fit in at AmEx:

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> "What would my role be? Who would report to me? What about my responsibilities?"
>
> "You'll have to prove yourself," Robinson replied.
>
> Weill's face reddened. Over the past twenty years, Weill had personally negotiated the acquisitions of a dozen or more firms. He had been a CEO for a decade. And here was Robinson treating him like some corporate virgin straight out of business school.[3]

Weill kept his anger in check. Then he got in his own subtle dig. Knowing that large Shearson shareholders, like himself, would make a fortune in the deal, he wanted to know whether it would be a problem if he ended up wealthier than Robinson. Robinson told him it was of no concern.

The next challenge was quelling the respective fears of American Express and Shearson employees. Louis Gerstner, later to become IBM's CEO, was then a rising star at AmEx and head of its Travel Related Services division. Gerstner believed in growing the company from within. Knowing Weill's reputation for acquisitions that grabbed headlines, he feared being overshadowed. Howard Clark Sr., the retired CEO who still carried considerable influence, also had serious concerns about the deal, mainly because American Express' earlier deal with Donaldson, Lufkin & Jenrette didn't work out. Robinson asked Clark's son, Howard Clark Jr., and Alva Way, a top executive at AmEx, to fly to Florida to visit several outside directors in the Palm Beach area, including Howard Clark Sr., to sell the deal.

Over at Shearson, many of Weill's top executives saw little need to risk their huge success. They questioned Weill's motives, some of them surmising that his real goal was to make a personal fortune. With well over 400,000 shares of Shearson stock, Weill stood to gain over $30 million in the deal.

Peter Cohen, especially, harbored doubts. Weill's clear number two at Shearson and a genius when it came to operations, Cohen's approval was critical for the deal's completion. He would be needed to help convince the rank-and-file brokers of its wisdom. Also, he did most of the detailed structuring of deals, and Weill needed Cohen's heart to be in it when it came down to negotiating with AmEx.

Cohen's concern was, understandably, remaining a player in the newly merged company. Weill promised to ask Robinson to give Cohen a seat on the AmEx board. At first, Robinson consented, only to have the AmEx board quash the notion of another Shearson board seat late in the negotiations. When Weill informed Cohen of the AmEx board's decision, Cohen felt that Weill had been cavalier and offhand in breaking what, to Cohen, was upsetting news.

Cohen appealed directly to Robinson and was reinstated onto the board, leaving Weill upset that he went over his head. Many associates believe the drama over the board seat fostered a mutual distrust between Weill and Cohen that endured for the rest of their time together at American Express.

A Done Deal

Wall Street and corporate America were shocked as the rumors of an impending American Express/Shearson merger surfaced in the spring of 1981. Even though the Pru-Bache deal was expected to trigger more such mergers, Shearson was no Bache; Weill's company was in great shape.

On April 20, 1981, the AmEx board approved the deal in principle and all that remained was for Weill to sign on the dotted line. During some late-night negotiations, Joan Weill had to convince her husband to trust Robinson. At one point, Weill even

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looked at Joan with Robinson sitting right there and asked her: "Do you believe him?" Joan said she did.[4]

The agreement was finally signed. Weill hadn't gotten everything he wanted. He didn't get the position of president; that went to Al Way. But Weill did extract a promise from Robinson: There would be no obstacles to his advancement at the company. It was undoubtedly one of the most emotional days of Weill's life. His voice cracked with emotion as he announced the deal the next morning to Shearson's nationwide corps of brokers in a 9 A.M. conference call. According to George Murray, the brokers were excited to be part of American Express, and eager to begin selling securities to AmEx cardholders.

Despite any misgivings he might have had about reporting to Robinson, Weill could feel very good about one thing: The deal made him very wealthy and provided a big payday for other Shearson shareholders as well. From a price of $34 shortly before the merger was announced, Shearson's stock climbed to $49 when news of the deal broke and kept rising to $65. Shearson executives (including Cohen) were still receiving options while merger talks were under way, which only bolstered speculation that the deal was motivated by the self interests of various executives. Weill maintained, with some credibility, that options had always been his preferred method of compensation, for himself, his managers, and board members. Lewis, the architect of the deal, earned a $3.5 million fee for the realization of his long-shot dream of joining AmEx and Shearson.

American Express purchased Shearson for about $900 million in stock, a price equal to roughly three times the book value of the firm. Weill himself held $30 million worth of stock as his shares of Shearson converted into nearly 600,000 shares of AmEx, making him the company's biggest shareholder. In fact, Weill ended up with 40 times more AmEx stock than Robinson did.

The deal was approved by Shearson shareholders on June 19, 1981. From the initial breakfast with Sandy Lewis to the board approval, 10 months had gone by. At one point during the bittersweet shareholders meeting, Weill was asked whether the whole company, not just the securities unit, would be called Shearson/American Express. "Not yet," he said. When the meeting ended, Weill drew a standing ovation.

In a 1989 retrospective article, *Business Week* called the deal a "spectacular coup" for Weill. Besides becoming AmEx' biggest shareholder, the magazine noted, "It seemed that he had stepped into a dream job. Symbolically, the acceptance by AmEx validated him. Big business no longer viewed him as an upstart from Brooklyn. He had the cachet of the corporate American elite."[5]

Strange Bedfellows

Now that the deal was complete and the transition under way, everyone could see just how different the cultures of the two firms were. As George Sheinberg, former CFO of Shearson, put it somewhat jokingly in February 1982, "You're combining Jewish guilt with Southern aristocracy."[6]

The executives at AmEx were forced to make room for various Shearson executives in the company's power structure. Sherman Lewis (no relation to Sandy Lewis), who had been Shearson's president, became an AmEx vice chairman and ran investment banking activities at the company. George Sheinberg, formerly Shearson's CFO, was named treasurer of AmEx. Duke Chapman, originally chairman of Shearson Hamill all those years before, joined the AmEx international banking division, and Gustave Hauser became the chief executive of AmEx' joint venture in interactive cable television, Warner AmEx.

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With Shearson, Fireman's Fund, an AmEx subsidiary since 1969, and AmEx' card business all under one roof, AmEx now issued credit cards, sold securities, and sold insurance. And with Weill now on board, it was widely assumed that there would soon be several more blockbuster acquisitions.

Weill, in fact, didn't do much to mask any of his ambitions in those heady early days, when it seemed everything was on the table for discussion: potential acquisitions, his own role at AmEx, the nature of the relationship between his brokerage house and the parent company. But as time went on and Weill settled into the job, few of these discussions would go his way.

An Auspicious Beginning

In its 1981 fiscal year, Shearson American Express recorded a 25 percent increase in earnings. Full-year profits reached $107 million, up from $86 million the year before.

Unlike other deals Weill had been a part of, this one was not about cutting costs and consolidating operations. In fact, little effort was put into integrating Shearson with American Express, and the brokerage largely operated as it had before the deal, albeit with a far larger capital base.

And what of cross-selling? It never got off the ground. As Clark recalls:

> There were attempts at cross-selling. But at the end of the day the credit card people were not going to open their business to thousands of salespeople. They just weren't about to do it. The credit card list was called the "crown jewel of American Express" and the thought of having a couple of thousand salespeople calling credit card holders to try and sell them

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common stocks, unit trusts, annuities, and partnership interests just never worked.

It was clear nonetheless that Robinson was pleased with his prized acquisition. In a speech to the American Bankers Association on October 5, he touted the Shearson acquisition as a development that would ease regulatory oversight:

> There's no need to tell you that banks have been stifled in responding to consumer needs, in part by regulatory impediments. The result, as you know, is that to meet customer needs, nonbanks have created such new products as money market funds and cash management type accounts. . . . Our acquisition of Shearson may serve as one catalyst that helps bring about some constructive change in these regulatory patterns—perhaps in McFadden, perhaps in Douglas, perhaps in Glass-Steagall.[7]

The Quest for Deals

Given the changing environment for financial services in the 1980s and Robinson's hunger for more acquisitions, Weill was ideally suited for his role of dipping into AmEx' deep coffers and making some timely acquisitions for the greater glory of the company. Yet Weill struggled to make significant deals for AmEx. In his new bureaucratic environment, he couldn't move as fast. And, as number three behind Robinson and Way, he couldn't call the shots.

Weill did his best to cut through layers of bureaucracy at AmEx. For example, when a major customer reached Weill with a problem with his margin account, instead of handing the problem off to the next rung down on the corporate ladder,

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Weill went directly to the margin clerk to fix the problem. "He didn't need an organizational chart," says Clark. "He went to where the source of the problem was."

Clark says Weill brought energy and a sense of urgency to the corporate suite at American Express. "What American Express brought to Shearson was some strategic and long-range planning," he says. "I think the two organizations were good for each other."

Maybe so, but Weill was clearly hamstrung in his new environment. In his first two years, he managed to acquire only The Boston Company, a small money management concern, and two regional brokerages. His attempt to take over Foster & Marshall, a brokerage based in Seattle, failed when hundreds of its brokers, afraid their commissions would drop if they became part of AmEx, abandoned the company. In fact, many of Weill's ideas for acquisition languished in dead-end meetings, like unpopular legislation stuck in committee.

He was, however, reaping the benefits of his increasing wealth. In 1982, the Weills, who maintained an apartment in the city after they bought their Greenwich home, purchased a seven-room penthouse on the Upper East Side, with views of Central Park.

He was also in a position to do favors for old friends. Winston Kulok, a friend from PMA, hadn't heard from Weill for several years in the early 1980s. "I was sort of in a Bohemian period. I needed an AmEx Card," says Kulok. "I called American Express and asked for Sandy." Weill took his call and made sure he got a card. "I got one in the mail the next day," says Kulok. "Now it's a Platinum card."

Weill Loses His Power Base

Weill had less and less to do with Shearson. While Robinson was off giving speeches about how great Shearson was, Weill

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removed himself from Shearson's daily operations and looked for major initiatives to lead within the parent company, leaving day-to-day management to Peter Cohen. With many of his deals going nowhere and with little input in Shearson, Weill felt as if he had very little to do.

Nonetheless, in January 1983, at 49, Weill was named president of American Express, replacing Alva Way in a management reshuffle. Gerstner became chairman of the executive committee, succeeding Weill. The day of his promotion to president turned out to be the high point of Weill's time at American Express. For one day, at least, Weill received a little bit of attention after being virtually invisible for over a year.

Still, Robinson felt it necessary to dismiss suggestions that Weill would soon make a play for the number one spot. "Sandy and I make a terrific combination," Robinson told the *Wall Street Journal*.[8] "I'm not the least bit concerned about his ambitions. He's a fantastic working partner." The article noted that, in addition to overseeing financial and investment services, Weill, as president, would negotiate the construction of a new American Express office tower on the southern tip of Manhattan, the company's future headquarters.

Weill's promotion to the coveted role of president proved to be the worst thing that could have happened to him. With it, Weill chose to give up his power base to the 36-year-old Cohen, who became the youngest head of a major Wall Street brokerage. Explains Murray, "Sandy had great confidence in Peter Cohen and Peter had done some very remarkable work in making order out of the chaos of merger time after time. . . . Therefore, he was rewarded." Cohen was officially named CEO of Shearson, with Weill staying on as chairman.

Cohen moved into Weill's former office on the 106th floor of the World Trade Center, complete with working fireplace. As

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awkward as Weill felt in his new situation, Cohen quickly made himself at home and added an oversized pair of shoes behind his desk. "This was a present to myself," Cohen told the *Journal,* "a reminder that I had big shoes to fill." Corporate politesse aside, Cohen was even bold enough to slight Weill in the *Journal.* Cohen told the newspaper that he wouldn't be able to visit Shearson branches as often as Weill did. "One of the reasons Sandy was able to go off was that I was back here at the company," he said.[9]

After years of supporting Weill—crunching the numbers, dotting the i's and crossing the t's—Cohen, understandably, felt ready to make his own mark. Yet Cohen had a distinctly different management style than Weill. His slightly aloof demeanor was more similar to that of a traditional Wall Street manager. Cohen was even-tempered and visibly noncommittal during meetings and conference calls. Cohen was also considered to be less focused on Shearson's 3,800-strong retail salesforce and more interested in investment banking and real estate deals. He made a point, however, of continuing Weill's policy of taking a call from any broker from Shearson.

Still, there was a marked difference in Cohen's and Weill's styles, observed Murray. "Sandy would walk onto the elevator and start asking people, 'What do you do?' He wanted to know everyone on the elevator. Now, Peter would get on the same elevator and he just stared straight ahead, hoping no one would talk to him."

Seeing Cohen run the company he built in a completely different style was painful enough for Weill. Even worse, at that point Cohen was faring better than his old boss, even at the acquisition game. Cohen conceived of and orchestrated AmEx's purchase of Edmond Safra's Trade Development Bank, which Cohen had become familiar with during his year spent at Safra's

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First Republic Bank. Capitalizing on his close ties to Safra, Cohen negotiated a reasonable price and convinced Safra to join AmEx as head of the private European banking division, which catered to very wealthy clientele.

Thanks to a generous bonus system he had created at Shearson, Cohen made more money than either Weill or Robinson in 1983: $1.3 million, compared with Robinson's $902,000 and Weill's $806,000. Unlike Weill, Robinson grew up wealthy and was unconcerned with Cohen's salary, just as he wasn't troubled about Weill's enormous windfall at the time of the merger. Robinson wanted to reward Cohen both for Shearson's record profits and for coping with meddling from Weill. "Sandy still has a network of moles inside Shearson keeping him up to date on what's happening," one source told the *Journal.* "Shearson was Sandy's baby, and it's been hard for him to let go."[10]

Case in point: In the mid-1980s, Larry Hartzog, the attorney who negotiated on behalf of the Oklahoma businessmen when Weill's firm purchased Hayden Stone in 1970, was working on a deal with some Shearson bankers in Oklahoma. Before the meeting, one of the Shearson men called him aside and said, "Sandy Weill sends his best regards." Hartzog later reflected, "How would he know that these guys were meeting with me? He clearly stays on top of things with people. And I remember thinking that if that guy hadn't delivered the message, he would really have been in trouble."

As Weill's relationship with Cohen frayed, he found a new protégé. In 1983, Weill hired Jamie Dimon, a Harvard Business School graduate and son of a Shearson broker. It was the beginning of an even more intense relationship than the one Weill and Cohen had shared. Dimon was soon indispensable to Weill, taking care of many of the same details that Cohen had handled. Cohen's journey with Weill—he had started at CBWL-Hayden Stone

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in 1971 as a 24-year-old analyst—would soon culminate with estrangement.

Weill's IDS Purchase Goes Unappreciated

While Cohen was basking in praise for the Trade Development Bank (TDB) deal, Weill scouted out a deal of his own that seemed pedestrian by comparison. He proposed that American Express buy Investors Diversified Services (IDS), a Minneapolis-based firm that sold mutual funds and insurance products door-to-door. Not surprisingly, the deal did little to improve Weill's status at AmEx, striking most as a hum-drum initiative, particularly in light of Cohen's prestigious TDB deal.

Getting the IDS deal through AmEx's bureaucracy would prove torturous to Weill, who saw great potential in the company's grass-roots approach. He negotiated with management and proposed a one billion dollar stock trade, which seemed, to him, a fair price given the company's growth potential. But other Shearson and AmEx executives, including Cohen, balked at the price. Although they agreed it looked like a decent business, they thought Weill had offered too much.

Cohen's unenthusiastic response to the deal enraged Weill, particularly during the trip out to Minnesota to look at IDS. Cohen, upon leaving IDS headquarters, said he planned on telling Robinson that the company was worth acquiring, but not at Weill's price. At that point, Weill lost his composure, screaming obscenities at Cohen. Robinson, as it turned out, agreed with Cohen's assessment. He sought the counsel of Sandy Lewis, who, after all, had sewn together the AmEx/Shearson deal. Lewis told Robinson that $750 million would be a more suitable price. Finally, in December 1983, Robinson agreed to the deal, at a price of $773 million.

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IDS would eventually prove to be AmEx's best acquisition, more profitable by far than either Shearson or TDB, both of which would eventually be shed at a loss for the parent company. But at the time, AmEx's top brass believed that Weill had miscalculated the price. That perceived stumble would pave the way for Gerstner's ascendancy as Robinson's most trusted and influential lieutenant.

As would happen with some frequency in Weill's long career, he ultimately got the last laugh. Weill hired his old Brooklyn friend Harvey Golub from the consulting firm McKinsey & Company to run IDS after the acquisition was finally approved. Golub would prove such a star, and IDS such a success, that after the AmEx board asked for Robinson's resignation in 1993, when the company's sprawling financial services empire was unraveling, they decided to name Golub CEO.

Saving Fireman's Fund

Weill, still smarting from the IDS pricing debacle, would soon have his hands full with a key role in resuscitating American Express' ailing insurance subsidiary, Fireman's Fund. But it was far from a plum assignment.

In late 1983, serious problems at Fireman's Fund emerged. Like many commercial insurers, Fireman's Fund paid out much more in claims in 1983 than it had projected. Meanwhile, the property/casualty industry was suffering a major downturn, which Fireman's Fund CEO Edward Cutler had warned Robinson and Weill about. Without adequate reserves, American Express had to sink capital into the company. Worst of all, the sharp losses in the insurance subsidiary dragged down the parent company's results. American Express was forced to announce that its profits would fall about 10 percent for the year in December 1983—the first time in 35 years that the company didn't have an annual earnings gain.

For Robinson, this was a disaster. Along with Gerstner's card division, Fireman's Fund had been a cash cow for AmEx. But it was a high-cost producer in an industry that was getting increasingly competitive. After Cutler made a presentation at AmEx headquarters detailing Fireman's Fund's financial woes, he would soon be on his way out.

The writing on the wall became clear for Weill when Robinson decided to send him out to California in late 1983 to rescue Fireman's Fund. Weill was smart enough to know that he was being exiled. From *House of Cards:*

> Weill: Your mind is made up, then?
>
> Robinson: It's the best solution.
>
> Weill: What about Shearson?
>
> Robinson: Shearson can report to me. Don't worry about that, Sandy.

As Friedman and Meehan wrote, "It was a fatal blow to Weill. AmEx's president would be out of New York and out of mind. Even better, Weill would be completely severed from his remaining power base at Shearson."[11] For the next year, Weill could no longer complain of not having enough to do. Fireman's Fund was a mess.

Weill told colleagues he welcomed the challenge, despite more honest intimations to friends. To his credit, Weill attacked the job with his customary gusto. He rented a small apartment three miles from the Fireman's Fund offices in Novato, California, north of San Francisco, where instead of overlooking the Manhattan skyline his office had a view of a cow pasture. He

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worked full-time there, flying back to New York and his family on the red-eye Friday mornings and returning on Monday. Adopting his old Shearson ways, he set about turning around the insurance subsidiary.

Weill moved fast. He cut the staff by one-fifth, reduced costs by $65 million, and attempted to thin an entrenched bureaucracy. Many of his cuts came from within the executive ranks. Weill expected immediate changes to produce immediate results, as they typically did at the brokerage firms he had turned around. But it took about a year for Fireman's Fund to get back on firm footing—far longer than Weill had expected.

Predictably, Weill alienated some executives at Fireman's Fund who criticized him for moving too fast. The complaints were familiar: Weill was abrasive; he would shout; he would not take time to think things through. The staid insurance company had probably never seen the likes of Weill before. "Fireman's Fund was an old, low-key organization long on trust," a former Fireman's Fund employee said in an article from that period. In contrast, Weill was described as, "abrasive and insensitive."[12]

Weill and Cohen Clash Again

At the same time Weill was shaking things up at Fireman's Fund, Cohen came up with an even more high-powered acquisition idea. In the spring of 1984, news broke that the partners of Lehman Brothers, the venerable Wall Street investment bank, were warring and looking for a buyer. Lehman had merged with another ailing Our Crowd firm, Kuhn Loeb, six months earlier and attempts to integrate the two firms were failing miserably. As CEO of Shearson American Express, Cohen was eager to purchase an investment banking firm. Shearson was still known for its fleet of retail brokers. As Cohen saw it, Lehman could bolster

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Shearson in the key areas of banking, fixed-income trading, and government securities.

Not surprisingly, Weill was against it at the start, arguing it was bad timing. The market was booming and he preferred to buy firms when the market was suffering and he could get a good price. But, his clout at the firm badly damaged by the IDS pricing debacle, Weill had no power with which to restrain Cohen.

Weill Looks for an Exit from American Express

Weill's stint running Fireman's Fund had rekindled his longing to be on top again, and it was abundantly clear to him that Robinson wasn't going anywhere soon. In August 1984, Weill started selling AmEx shares by the hundreds of thousands. As the months went by, he kept selling. For anyone who cared to look, Weill was clearly signaling his impending departure, as he had always viewed the willingness of employees to stockpile company shares a litmus test for their loyalty.

"American Express' Weill Sells 150,000 More Shares" ran a *Journal* headline on March 8, 1985. Weill sold those shares of common stock for about $6.1 million, leaving him with about 150,000 shares. In the prior six-month period, Weill had sold 450,000 shares of American Express, or about three-quarters of the 605,000 shares he owned. An American Express spokesman told the newspaper that Weill sold the stock merely as a result of "personal financial planning that includes diversification of his portfolio."[13]

It became even clearer that Weill would soon be leaving when another management reshuffle in December 1984 left Weill out of the loop and gave Gerstner a top role. Gerstner's mandate was broadened beyond the credit card and traveler's check area to include various corporate financial and planning duties. Weill

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was relegated to chairman of the finance committee of the board of directors, a role that had been fulfilled by Robinson. It was a swift kick upstairs for Weill.

Weill alighted on a potential exit strategy. Robinson and the board decided that, even with a turnaround under way, Fireman's Fund wouldn't be able to achieve benchmarks for growth and should be sold. Weill, who liked the insurance business, decided to buy Fireman's Fund himself.

The strategy he came up with for buying Fireman's Fund was a leveraged buyout, with assistance from Warren Buffett of Berkshire Hathaway. It called for Buffett to get 40 percent, AmEx to retain 40 percent, and Weill to take the remaining 20 percent. Robinson weighed Weill's proposal for nearly a month. But the board balked, so Robinson rejected Weill's offer. Instead, the AmEx board decided on a strategy of selling Fireman's Fund to the public over the next few years while the turnaround continued. As it turned out, one of Weill's big mistakes during his tenure at AmEx was not doing more to cultivate the board.

But Weill was not completely rebuffed. Robinson offered him the chance both to become the CEO of Fireman's Fund and to buy a significant stake of the public company. Though skeptical, Weill negotiated with Robinson. But when Robinson wouldn't grant him as big a stake as he wanted, Weill turned down the deal, which included a five-year, $80 million offer from Robinson to run Fireman's Fund full-time—a compensation package that would have been the richest in corporate history.

Clark believes that the deal, as it happened, was the right one for AmEx. He says that AmEx shareholders ultimately made out far better with the decision to fix the company over time while gradually selling shares to the public. "The way Sandy had structured a number of his purchase offers, there were a lot of

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contingencies that American Express would have kept. So American Express would have ended up putting in more money after selling it." In 1990, the company was sold to Allianz A.G. of Germany for $3 billion.

In June 1985, Weill resigned from American Express, effective August 1. His stated reason, as he would frequently tell the press, was that he was exhausted with the corporate grind. He said he was determined to take it easy for a while. Not surprisingly, Gerstner succeeded him as president. One thing Weill did, incidentally, before leaving was to give Cohen his blessing to go ahead with the Lehman deal—not that it was really needed.

AmEx after Weill

Cohen, whose first few years at American Express were a stunning success, floundered in the years after Weill's departure. Apparently caught up in the excesses of the day on Wall Street, Shearson was hurt by bad real estate deals, junk bonds, and bridge loans. "There was a lot of bad stuff going on and it affected a lot of companies, not just Shearson," says Clark. "It was clear that Peter was very smart, a terrific back-office person, and a great integrator of the acquisition strategy that Sandy Weill had. But he always had Sandy." Cohen resigned on January 30, 1990.

As for Robinson, he, too, would see his once sparkling reputation lose luster in the late 1980s and early 1990s. "Jim did a lot of very good things for American Express over a long period of time," says Clark, pointing to the firm's tremendous growth. But Robinson inevitably suffered at the hands of the press when many of the acquisitions, including Shearson, ran into problems. *Business Week* ran a punishing story "American Express: The Failed Vision," on March 19, 1990. Robinson eventually resigned from AmEx in January 1993.

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Despite never quite hitting his stride at American Express, Weill has said many times in the business press that he would do the Shearson/American Express deal all over again. His AmEx years were a time of tremendous growth, if not great achievement. The lessons he learned—about cultivating the board of directors, keeping a power base in operations, and never accepting a number two spot—would all serve him well 17 years later when Travelers merged with Citicorp.